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12 January 1984

Dear Lord President

When I wrote to you on 8 December with a "Mark 1" version of our brief on local government policies I promised to write from time to time with revisions. I am now enclosing a text which has been amended to bring it up to date for the Second Reading of the Rates Bill and the debate of the Rate Support Grant Order. The more important changes are sidelined in the text.

I am copying this letter to the Prime Minister, other members of the Cabinet (together with additional copies of the revised briefing for colleagues in their Departments), the Chief Whip and to Sir Robert Armstrong.

Yours sincerely  
A.H. Davis

for

PATRICK JENKIN  
(approved by the Secretary  
of State and signed in  
his absence)

The Rt Hon the Viscount Whitelaw CH MC



## BRIEF FOR MINISTERS ON LOCAL GOVERNMENT POLICIES

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6. As to the rates, between April 1979 (when the Government came into power) and April 1983 domestic rates in England rose by 91% compared with a 55% increase in the RPI. The average increase in domestic rates was 72p in the £, with a range from 40p to a staggering 160p.

7. The Government have reduced the rate support grant percentage, since we want to reduce the cost of local government to the taxpayer and ratepayer, and to signal the need for expenditure reductions. But some authorities did not respond and reduce their expenditure as they were expected to. If they had done so (and that was our overall strategy) then rate increases would on average have been below the general rate of inflation. By refusing to cut their expenditure they put an additional burden on their ratepayers.

#### THE CONSTITUTIONAL ARGUMENT

8. For almost all the post-war period there has been a clear consensus about the relationship between central and local government. Local authorities have accepted that they should live within the overall policies of central government. Of course it was easier to operate that consensus in times of expectation of growth. But it has broken down now that the need is for retrenchment. The blame for this rests squarely with a minority of high spending local authorities who have chosen to disregard the economic policies of national Government.

9. We live in a unitary state. Parliament is sovereign and has granted local government its powers. Local mandates cannot override national policy. At a time when the Government is striving to implement a programme for national economic recovery it has a right to expect local authorities to respond. Where that response is not forthcoming the Government has no alternative but to act through Parliament to safeguard the policies on which it was elected. That is what we are doing. The Government cannot control aggregate spending except through the individual amounts which make up a total, and some restraints on individual authorities are inevitable.

#### WHY THE GOVERNMENT IS CONCERNED WITH LOCAL GOVERNMENT SPENDING

10. Some people question whether Government has a role at all in respect of local government. They are wrong to do so. High local government spending and taxing threaten the Government's economic strategy. They increase the burden of taxation which we are committed to reducing. Our tight control of public expenditure can be undermined by overspending in so substantial a sector of the



## RATE LIMITATION: SPEAKING NOTES

## THE RATES BILL

1. We have called the Bill "The Rates Bill" because its main purpose is to protect ratepayers from exorbitant rate increases in those areas where local councils have increased their spending, or sustained high levels of spending, contrary to the guidelines laid down by Parliament. The Bill gives the Government power to identify and select the relatively few councils whose spending is by any standards excessive; to set a level for the spending of each of those councils; and then, when the rate support grant settlement is known, to fix an upper limit on the rate or precept which that council can levy. Ratepayers, both domestic and business, in the areas thus selected for rate capping will certainly see rates lower than they otherwise would be and may even see rate reductions.

## FINANCIAL BACKGROUND

2. Local authorities in the United Kingdom are responsible in their current and capital spending for a quarter of all public expenditure.

3. Back in the early 60's their **current** spending amounted to about 5% of all domestic expenditure. That proportion was around 9% by 1982. The national Exchequer makes a very substantial contribution towards this: 52% of rate fund revenue in 1982/83 in England and Wales. However within the total of local government expenditure, the dramatic increase in current spending has been masked by an even steeper fall in capital spending - over 50% in 'volume' - between 1978/79 and 1982/83.

4. In fact, between 1978/79 and 1983/84 when this Government was looking for **real savings**, current expenditure actually rose. Budgetted expenditure this year in England is no less than 12% higher in volume terms than the planned total envisaged in 1980 and 1981. Had local government conformed to the Government's plans, considerable savings would have been achieved. Only the collapse in capital spending has produced any reduction overall.

5. On manpower, we have had some success. Local authorities in England and Wales employ nearly 2½m full-time and part-time staff. Between June 1979 and June 1983, with encouragement from us, they reduced the total by about 4%. But that trend is now turning against us, with a rise of 0.4% in the year to September 1983.



economy. High rates feed into costs, fuel wage demands, and put our anti-inflation policy at risk. The local government overspend (£770m this year) pre-empts resources that could have been better used; it is a large figure in terms of the management of public sector expenditure.

#### **Non-domestic rates**

11. High rates threaten the health of our industry and commerce. Non-domestic ratepayers contribute nearly 60% of the rates - much more in some individual authorities. They have no direct voting influence. Non-domestic rates total some £6bn in England this year and are the largest single tax on business. They are unavoidable. Increases in rates raise costs, stifle growth, damage competitiveness, and destroy jobs.

#### **Domestic rates**

12. The Government have a responsibility to domestic ratepayers. There is a general feeling in the country that something must be done about rates - the do nothing option is not open. The Government cannot stand back and watch as some authorities heap heavier and heavier burdens on their backs. If locally elected councillors will not protect the ratepayer, then we must do so. The least we can do is to protect those who have the heavier burdens.

#### **WHY NEW MEASURES ARE NEEDED**

13. The Government have not rushed into proposals for rate limitation. We have moved step by step in an attempt to carry local government with us. We have reformed the grant system and sought to work through it to keep expenditure down. We have used targets and holdback, and this approach has had some success: in the current year 80% of authorities have budgeted to spend at or close to their target level. A significant minority however continue to spend with no regard to national policies or the burden on their ratepayers.

14. We have also considered the scope for getting rid of rates altogether. We have carried out a most thorough and searching review of the rating system. We have put forward some improvements in the rating system; for instance that representatives of business should be consulted before the rate is set. We have reluctantly concluded that rates must remain for the foreseeable future the main source of local revenue. Changes such as new taxes would take years to implement and would not restrain expenditure now; indeed buoyant new taxes would encourage



it. And changes in functions (such as transferring or financing of education to central government) would raise major constitutional issues.

15. The changes we propose do not "spell the end of local government". Selected authorities will remain free to decide their own spending priorities within the rate limit set. They will be free to spend lower, and to rate lower, than the limit if they wish. All we are seeking is to curb overspending.

#### RATE LIMITATION: THE NEW PROPOSALS

16. The scheme we are now proposing for **selective rate limitation** is practicable and reasonable. Three quarters of this year's total budgeted local government overspend of £770m is accounted for by just 16 authorities. Under the selective rate limitation scheme we will be looking only at the highest spenders - probably no more than a dozen or 20 authorities altogether. The criteria by which we select them will have particular regard to authorities' recent levels of spending, and how they vary from the objective measure of need represented by the Grant Related Expenditure (GRE).

17. Authorities spending below their GRE will be expressly excluded, as our White Paper makes clear. So will smaller authorities, by means of the setting of an expenditure level (the White Paper illustrated the effects of a £10m limit) below which no authority will be liable for selection.

18. The proposed **general rate limitation scheme** would provide a general control over the rates or expenditure of all local authorities. It would work in a similar way to the selective scheme in that expenditure levels would be set from which rate limits could be determined in the light of the authority's grant entitlement. There would be a power to exclude small authorities.

19. We hope that the selective scheme, along with the pressures already being exerted on authorities through the grant system, targets and holdback, will curb high spending councils and bring local government spending in aggregate into line with the Government's planning totals. If there is acceptable progress towards that objective we will never need to activate the general rate limitation scheme. We have no wish to do so, but our experience over the last four years leads us to conclude that we must be ready for all eventualities. Whether we are forced to move to general rate limitation lies entirely in the hands of local government itself.



## RATE LIMITATION: QUESTION AND ANSWER NOTES

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## ECONOMIC BACKGROUND

Q1. Why does the Government want to cut local government spending?

A1. The Government has overall responsibility for public expenditure. Public spending must be reduced if we are to cut borrowing and taxation, reduce interest rates and leave people with more of their own money to spend. Local government still accounts for more than a quarter of all public expenditure. Because it is the Government's priority to protect the health service, pensions, defence expenditure and law and order services, other public spending by central government, local authorities and some nationalised industries have to take a larger share of the cuts.

Q2. Aren't local authority expenditure targets for next year just designed to bolster the case for rate limitation?

A2. No, the targets are tough. But the case for rate limitation rests on local authorities' spending and rating behaviour over the last four years. In the current year their budgets are 12% higher in volume terms than we originally planned for this stage and domestic rates have increased by 91%.

Q3. Is local authority expenditure public expenditure?

A3. Certainly. It is expenditure for public purposes. Whether financed through the rates, borrowing or grant - and over half is financed from central government grant - local authority spending denies the use of funds to private industry and private individuals.

Q4. Isn't local authority overspending only a small proportion of total public expenditure?

A4. It is precisely these marginal amounts which cause so much difficulty in terms of economic management. We have had to increase provision for 1984/85 by £540m in view of overspending in England in 1983/84. Since the Government intend to stay on course, this £540m has to be found from somewhere. This can only increase the pressure on other public expenditure programmes.



- Q5. Aren't rates only a small proportion of industry's costs?
- A5. Rates may be only a small proportion of industry's costs, but in terms of profits rates can make all the difference. The CBI estimate that rates on industry and commerce in the UK, excluding North Sea operations, amounted to about 40% of gross trading profits adjusted for inflation in 1982.
- Q6. Haven't rates gone up simply because the Government has reduced grant?
- A6. We have reduced the proportion of local spending met by central grant from the high levels allowed by the last Labour government; we want to reduce the cost of local government to the taxpayer and increase local accountability. But some authorities did not respond to this signal and reduce their expenditure as they were expected to. If they had done so then rate increases would on average have been below the general rate of inflation in each year. However some authorities have simply carried on spending and put the resulting burden on the ratepayer.
- Q7. Haven't the Government's attempts to control local government spending from the centre failed so far?
- A7. Between 1979/80 and 1981/82, the volume of local authority current expenditure fell by about 2%. However local authorities' estimates of expenditure in 1982/83, and their budgets for 1983/84, show that this initial success has been followed by a return to growth - 2½% in 1982/83 and 1½% in 1983/84. The result is that the volume of local authority expenditure is now somewhat higher than it was in 1978/79. Compare this with the 7½% volume reduction between 1978/79 and 1983/84 which we were looking for in 1980.
- Q8. Are all local authorities responsible for overspending or just a few authorities?
- A8. The 1983/84 budgets of English local authorities are 12% higher in volume terms than the figure planned for this year by the Government in 1980 and 1981. There is no doubt that we must seek more economies from all authorities. However, in 1983/84, 75% of the budgeted overspend of £771m on the aggregate of targets was due to only 16 authorities. It is that irresponsible minority who must be brought into line.



Q9. Hasn't local authority spending fallen as a percentage of GDP/total public expenditure and in real terms?

A9. Yes, but this is entirely because of the collapse in capital spending which nearly halved in cost terms between 1978/79 and 1982/83. In terms of current expenditure it increased by 10% in cost terms (cash expenditure adjusted for general inflation) over the same period.

#### THE CONSTITUTIONAL CASE

Q10. Don't the Government's rate limitation proposals attack the autonomy of local government?

A10. Local authorities are responsible to local people through the ballot box for the way they carry out their statutory responsibilities. But ours is a unitary and not a federal state. All the powers of local authorities, including the power to raise rates, are derived from Parliament. Local mandates cannot set aside national policies.

Q11. Why not let local electors decide if they are prepared to pay the rates?

A11. There are major limitations to authorities' accountability to their ratepayers. In 1982/83 52% of authorities' net revenue expenditure was met by the national taxpayer. Only 22% of net rate fund revenue expenditure is financed by domestic rates (before rebates). Moreover there is normally only one ratepayer in every household even though there may be a number of people eligible to vote. 30% of ratepayers receive full or partial rate rebates. As a result it is estimated that only about 35% of those eligible to vote in elections actually pay the full rate demand.

#### WHY NEW MEASURES ARE NEEDED

Q12. Why move to rate limitation anyway?

A12. We have sought to achieve our spending plans over the last four years by persuasion, exhortation, and financial pressure through the grant system. That is the approach we prefer. But it has not worked, as the expenditure outturns show. That is why we have reluctantly had to move to stronger measures.



Q13. Why not just abolish the rates?

A13. We have looked exhaustively into all the possible alternatives to rates. None of them meets the criteria we set out in our Green Paper any better than rates. All have considerable drawbacks and none has any consensus of public support.

Q14. Will rate limitation allow you to relax the pressure on low spending authorities?

A14. Selective limitation will put a curb on the 12 to 20 highest spenders. There needs to be continued restraint by local government generally. But 16 authorities presently account for 75% of the budgetted overspend on targets. We are hopeful that once selective limitation is working properly it will be possible to relax some of the pressure on other authorities.

Q15. Will the rate limitation scheme lead to lower rates?

A15. Rates will certainly be lower than they would otherwise have been. Whether there can be actual reductions on present rate levels will depend on the speed at which it is possible to cut back expenditure, and on outside factors like the rate of inflation and interest rates.

Q16. Will you continue to set targets for authorities not affected by rate limitation?

A16. We have made no decisions on the future of expenditure targets beyond 1984/85. I know they are unpopular but they are effective in restraining the expenditure, and therefore the rates, of the great majority of authorities.

Q17. Aren't there better forms of local tax than rates?

A17. We have looked at all the alternatives. None would help in terms of controlling expenditure in the short term, and all would take years to introduce. Indeed if they produced a buoyant income they would simply encourage the overspenders.

A18. Why not a local sales tax?

A18. Local sales tax was the least favoured by people responding to the Green Paper. Together with VAT it would produce a very high rate of tax on goods and services. It would be much less perceptible than rates and the burden of



taxes could drift up with increasing prices without any need to change the rate of tax.

Q19. Why not a poll tax?

A19. A poll tax would certainly be perceptible and spread the burden more widely. But it would be hard to enforce. If the Electoral Register were used as the base, it could be seen as a tax on the right to vote. If a new register were used the tax would be expensive and complicated particularly if a system of rebates were needed. Without rebates it would bear harshly on those with low incomes.

Q20. Why not local income tax?

A20. Those who support local income tax want to spread the burden wider and relate tax liability more closely to ability to pay. But the Government is committed to reducing the burden of tax on incomes; a local income tax would increase the public sector staffing requirements and create extra work for employers; and such a tax deducted at source by the Inland Revenue and paid over to local authorities would confuse the link between tax demand and spending and would reduce accountability.

#### RATE LIMITATION: THE PROPOSALS

##### The selective scheme

Q21. What is the purpose of the scheme?

A21. Selective rate limitation will limit the rates and expenditure of a small minority - probably no more than 12 to 20 - of high spending local authorities. It will thus protect their ratepayers. It will also ease the pressure on the authorities who are spending sensibly.

Q22. Will there be any exclusions?

A22. Yes. All authorities spending below £10m will be excluded, as will authorities spending below their Grant Related Expenditure (GRE). There is provision in the Bill for the Secretary of State to increase but not reduce the figure of £10 million. As the Bill stands and on present spending plans it would



exclude 317 of the 333 non-metropolitan districts in England and Wales (only 1 district council in Wales and 15 non-metropolitan districts in England could even be considered for selective rate limitation). Over three quarters of all the authorities in England and Wales would be completely excluded from selective rate limitation.

**Q23. Why no explicit selection criteria in the Bill?**

A23. The Bill makes clear that only excessive spenders can be selected, and that those spending below GRE or below £10m will be excluded from selection. Criteria must be according to general principles. We cannot be more precise at this stage, since selection for limitation in 1985/86 must depend on spending and rating behaviour in 1984/85 for which we do not yet have information.

**Q24. What is to stop unreasonable rate increases in 1984/85?**

A24. We cannot implement the scheme earlier than 1985/86. But there are three reasons why authorities should not be tempted to rate up in 1984/85 to forestall rate limitation. Expenditure and rating behaviour in 1984/85 will be major factors in deciding who will be selected for control. The Secretary of State will have power to take account of authorities's reserve funds in setting rate limits for 1985/86. And new commitments entered into in 1984/85 would result in bigger cuts being required from other services to meet the rate limit in 1985/86.

**Q25. Will authorities which fail to meet their RSG expenditure targets and are subject to holdback automatically be selected for rate limitation?**

A25. No. Authorities with small budgets or which are spending below their GRE will automatically be excluded from selection whatever their "holdback" position. The selection criteria themselves will be designed to identify only the minority of highest spending authorities - perhaps 12 to 20 at most. Prudent authorities need not worry.

**Q26. How will the selective rate limitation scheme protect ratepayers in the selected authorities?**

A26. Simply by setting a maximum rate for individual councils. Once the RSG settlement is announced each year it will be possible to calculate the rate increase needed to cover the difference between expenditure and grant.



Q27. Why have rate limitation as well as abolishing the GLC and Metropolitan County Councils?

A27. Although the authorities to be abolished account for a substantial part of the overspend they do not account for all of it. And they are not the only high spending and rating authorities. We need selective limitation to bring down spending and to protect ratepayers in high spending areas that are not subject to abolition.

Q28. Will the selective scheme enable pressure to be lifted off low spenders?

A28. Not immediately. Selective limitation will put a curb on the small minority of really high spenders. But there still needs to be restraint in spending by local government generally if aggregate expenditure plans are to be realised. That is one of the aims of a target/holdback system. Once selective limitation is working properly it may then be possible to reduce some of the pressures on other authorities.

#### The general scheme

Q29. What is the purpose of the scheme for general rate limitation?

A29. The power to limit rates generally will be held in reserve. We have to have it on the statute book in order to exert some pressure on those overspenders who will not come within the selective scheme. We do not want to use it, but cannot risk being left without further powers if the combination of selective limitation and grant pressures do not bring the overall improvement we need.

Q30. What safeguards are there that you will not move to general control?

A30. The Bill provides that general limitation could only be introduced by means of a Parliamentary Order under the Affirmative Resolution procedure in both Houses of Parliament and after consultation with the local authority associations.



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Q31. The Government say that only 20 authorities can be coped with under the selective scheme. How can you possibly expect to run general rate limitation?

A31. There are a number of points here. First, there would be problems in extending the selective scheme very far. With more authorities selected it would become more difficult to decide whether authorities' expenditure was excessive. Secondly, if we had to introduce the general scheme we would be able to draw on our practical experience of the selective scheme. Thirdly, the general scheme has built into it the possibility of excluding some authorities according to how much they spend. Fourthly, we envisage operating the general scheme in such a way that most responsible authorities would find it relatively easy to comply with our requirements.



## RATE REFORMS: SPEAKING NOTES

1. We propose several changes to the rating system to improve accountability and to bring relief to hard pressed business ratepayers.
2. We are suspending local authorities' powers to levy rates on empty industrial property from 1 April 1984 and extending the right to pay rates by instalments to all business ratepayers from 1 April 1985. We intend to place a duty on local authorities to consult representatives of their industrial and commercial ratepayers, who provide a significant proportion of rate income, before deciding upon expenditure levels and fixing rates and precepts.
3. All ratepayers will, in addition, be given a clearer statement of their rate liability to their precepting and rating authorities, and tenants who do not receive a rate demand, because for example their rates are included in their rent will also receive this information.



## RATING REFORMS: QUESTION AND ANSWER NOTES

Q1. Why no revaluation?

A1. We have announced that we intend to hold a non-domestic revaluation to correct the distortions which have developed due to changed relative values of business property. We are urgently considering the case for a domestic revaluation.

Q2. Why not more help to business ratepayers?

A2. We have provided considerable help for business ratepayers, both in the Bill and in our other proposals. The right to be consulted on local authorities' spending and rating proposals will be of considerable significance. We have also decided that all non-domestic ratepayers should have the right to pay their rates by instalments, and meanwhile we are extending this right to more business ratepayers for 1984/85, by increasing the rateable value limits to £10,000 in London and £5,000 elsewhere. We intend to make an Order which will suspend local authorities' powers to levy rates on empty industrial property from 1 April 1984. And we have announced a revaluation of the non-domestic sector to correct the anomalies that have arisen since 1973.

Q3. Why not abolish rates on empty commercial property as well as empty industrial property?

A3. We must set priorities since losses in rate income have to be made up by other ratepayers or by taxpayers. Local authorities have discretion to take account of local circumstances in deciding whether to levy empty property rates. Where there is still a market for empty property, as there is in many areas for empty commercial property, it must be right to encourage the full use of such property.



## RSG SETTLEMENT 1984/85: SPEAKING NOTES

1. In the current year, 1983/84, English local authorities are budgeting to overspend target by £770 million, or 3.8%. That was despite the fact that the 1983/84 public expenditure provision had already been increased by over £1 billion to take account of local authorities' overspend in 1982/83.
2. Each year we have been forced to increase the following year's provision in the light of authorities' budgeting to overspend. We have again increased provision, this time by some £540 million.
3. Even that big an increase, however, does not allow us to set easy targets for authorities next year. Far from it: we have not disguised the fact that real terms reductions are required from all authorities, including those which have tried to meet targets in the past.
4. We have given all authorities expenditure targets for 1984/85. The highest spenders are being asked to make cuts of up to 6% in cash from budget this year. That is a very tough target indeed in real terms and we could not reasonably ask for more.
5. Most low-spenders have targets which allow a 3% cash increase from budget this year. That too is tough, because the lowest-spenders have already found some of the obvious economies. But many low-spenders have not reduced the volume of their spending in the last 5 years. Unless we restrict cash increases even for the lowest spenders we risk undoing what progress there has been.
6. Three other points on targets. If there is shortfall between budget and outturn this year, to that extent the maximum cash increase over actual expenditure will be more than 3%.
7. Second, local government themselves can influence what that 3% will buy; on average, about two-thirds of their current expenditure is on staff costs; the lower the wage settlements this year, the less the real terms effect of our targets.
8. Third, many local authorities simply take the % cash increase allowed, subtract it from a forecast inflation figure, and allege that the resulting % is the real terms cut on service levels. That leaves out of account any scope for



nomies, eg through privatising. I cannot believe that in even the low-spending authorities there is not still some scope for further economies.

9. We have also announced grant and holdback. The grant percentage is close to this year's - about 52% compared with 52.8% this year. But the holdback scheme is more severe: this year in rate poundage terms the penalties in lost grant are 1, 1, 5, 5, 5, for percentage points of overspending; next year we are proposing 2, 4, 8, 9, 9. Unless we make it more severe, we do not increase the grant pressure on the highest overspenders: they have already rated to meet this year's level of holdback, and we need to put more pressure on them to deter them from further overspending.

10. Many authorities would prefer a gentler lead-in, ie a repeat of the 1, 1 .... that we had this year. But that concession this year in fact meant that many authorities did not take their target seriously and budgeted up to 2% above it - because the penalty for doing that was negligible. For next year the penalty for overspending by up to 1% is not too painful, ie up to 2p in lost grant. But beyond that, rightly, it gets more so.

11. It is the time of year for scare-stories on rate increases, even from Conservative authorities. The fact is that by keeping the grant percentage at about the same level as this year we have ensured that if authorities spend at target, rate increases will on average be very low. There will always be some exceptions, because of grant distribution changes. But the message is that authorities must plan to hit target. If they do their ratepayers will see the benefit.



## RSG SETTLEMENT 1984/85

1. The main components of the 1984-85 settlement are:
  - a. **Individual spending targets** for all authorities: most low-spenders to get a 3% cash increase over budget 1983/84; and most high-spenders to get cash cuts from budget 1983/84 of up to 6%.
  - b. **Current expenditure** to be £20,389 million, ie £840 million more than in the 1983/84 RSG settlement, £540 million more than in the Public Expenditure White Paper for 1984/85, and about the same in cash as local authorities are budgeting to spend in 1983/84.
  - c. **Exchequer grant** to be £11,870m or about 52% of relevant expenditure, compared with £11,780m or 52.8% in the 1983/84 settlement.
  - d. **Grant holdback** for authorities overspending target in 1984/85 to be much tougher than under the 1983/84 scheme: in rate poundage terms the 1984/85 penalty in lost grant to be 2, 4, 8, 9, 9 .... for percentage points of overspending, compared with 1, 1, 5, 5, 5 .... for 1983/84.
2. The RSG settlement debate is planned for the week beginning 23 January. The proposals are now the subject of judicial review insofar as they affect the London Borough of Hackney.

Ministers should avoid being drawn into debate on the effect of targets on individual authorities, and in particular on whether any target is achievable within a single year.



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1. Toughness of the Settlement	C3/2
2. Impact on Rates	C3/3
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## TOUGHNESS OF THE SETTLEMENT

- Q1. Isn't the RSG settlement going to force rates up in 1984/85 even for responsible authorities, and thus make them liable to be selected for rate limitation?
- A1. No. We have kept the grant rate at about 52%, very close to the grant rate in 1983/84. That means that if authorities spend at target rate increases on average should be very low. In many cases there could be rate reductions. But anyway we have made it clear in proposing selective rate limitation that we will be looking only at the very highest spenders, probably only 12-20 authorities altogether; and that authorities below GRE or spending below £10 million will be excluded.
- Q2. Isn't the true grant reduction much bigger because of the penal holdback scheme proposed?
- A2. Holdback only applies if an authority exceeds its target. We have given them early notice of targets to enable them to plan to avoid doing that. For authorities which plan to overspend, it is right that they should be entitled to less grant. We have proposed a tougher holdback scheme than this year's to increase the pressure on overspending authorities to make the necessary expenditure reductions.
- Q3. Aren't the targets so tough that most authorities are bound to incur holdback?
- A3. Targets are rightly toughest for the highest spenders: those who spend most have most scope for economies. The lowest spenders get a 3% cash increase over their budgets this year. If they spend less than they budget, the increase over actual expenditure will be more than 3%. The severity of that target depends on how fast local government costs go up: if low wage settlements are achieved it becomes that much easier. I hope that all authorities will make every effort to meet their target next year. Where they do not do so, their ratepayers will pay the price.



Q4. Why reduce the grant rate again?

A4. First, because reducing the proportion of local government spending supported by the Exchequer increases local accountability. Second, because it maintains pressure on local government across the board to find the economies necessary if their expenditure is to be in line with the Government's plans. The percentage for 1984-85 has been kept very close to the 1983-84 percentage in recognition of the pressure already exerted by earlier reductions.

#### IMPACT ON RATES

Q5. What is the Government's forecast of the average rate increase next year? How much grant holdback is expected?

A5. That depends entirely on the spending decisions of 413 elected local authorities. We never forecast the average rate increase, because it is not in our control. All I can say is that if authorities spend at target, rate increases should on average be very low.

#### EFFECTS ON MARGINAL OVERSPENDERS

Q6. Why not have a gentler lead-in to holdback for authorities which try but narrowly fail to hit target?

A6. We had that for 1983/84, when the holdback penalty was only 1p in poundage terms for each of the first 2 percentage points of overspending. The evidence is clear that because of that concession many authorities judged the penalty to be negligible and budgeted to spend up to 2% above target. We must persuade all authorities to take the targets seriously. Moreover, overspending authorities have already rated for holdback at this year's scale, so if we want to deter them from overspending again next year with the threat of high rate increases, we must make the holdback scheme more severe.



## ABOLITION OF GLC AND MCCs - SPEAKING NOTES

## THE CASE FOR CHANGE

1. Experience in the first term of office convinced the Government that the GLC and the Metropolitan County Councils (MCCs) are a superfluous tier of government. These "upper tier" councils are the junior partners in the provision of services, responsible for only one quarter (in London only one sixth) of spending on local services in their areas.
2. Contrast this with the shire countries; there the county councils are responsible for over 80% of spending, but the highly accessible district councils are still valuable in providing important local services. No change is proposed in the shire areas.
3. The GLC and MCCs have sought an outlet for their energies by developing a general strategic role. This leads to conflict with the lower tier authorities (eg on land use planning) and to duplication (eg on economic development). There has also been conflict with central government as authorities have assumed a "mandate" on such issues as defence and foreign policy. With their large rate base and relative remoteness from the ratepayers, they have pursued unrealistic spending policies.
4. Abolition is not motivated by political prejudice; it is the obvious response to the need to eliminate the overheads associated with a superfluous tier of government, and to remove a source of conflict and duplication. The result will be more economical and effective local government.

## THE PROPOSALS

5. The White Paper "Streamlining the Cities" (published on 7 October) set out detailed proposals for the reorganisation of services. A note showing what will happen to each service is attached. Most will go to the borough or district councils for them to exercise directly, in some cases co-operating informally. For a few services there is a need to have a formal mechanism for the boroughs and districts to operate services jointly. So there will be joint boards for fire, police and public transport in each metropolitan county; for fire in London and for education in inner London.



6. These boards have been referred to as quangos. They are not. A quango is a body whose members are appointed by Ministers. In contrast, the joint boards will be local bodies composed of local councillors appointed by their locally elected authorities. Nor will they be charging ratepayers separately; their precepts will form a clearly identified part of the single bill that will be sent, as now, by the borough and district councils.

7. The block grant system will be adjusted to reflect the new division of responsibilities; arrangements will be made for the debt to be serviced in a secure way and for continuing liabilities to be discharged. No unfair burden will fall on particular borough or district councils.

#### SAVINGS AND TRANSITIONAL COSTS

8. There must be potential savings when a whole tier of local government is eliminated. There are inevitable overheads in the operation of a fully-fledged council; and there are a few services in which duplication occurs. Moreover the GLC and MCCs are responsible for over half the overspending of local government. Shifting more spending to the boroughs and districts, which are less remote from ratepayers, will strengthen restraint on spending.

9. We are determined that savings should be made to the benefit of the ratepayer. Boroughs and districts will be subject to the pressures for economy of the block grant system, supplemented by rate limitation, and the Government will monitor changes in staff for the services transferred. The joint boards will be accountable to the boroughs and districts; in addition, to ensure that the boards are being set up economically, the precepts they issue will be subject to approval by the appropriate Secretary of State for the first three years. There will also be powers to specify the boards' levels of manpower or manpower expenditure in this period.

10. Of course there will be some transitional costs - as in all reorganisations. But costs will very soon, perhaps even in the first year, be outweighed by the accumulating savings. Since the 1972-74 reorganisation, which was costly, there has been a major change in the economic climate, and the Government have developed new instruments of control. During the election, Tom King indicated that there could be scope for saving at least £120 million a year (including 9,000 jobs); since then initial indications from a few boroughs and districts suggest that there may be savings of at least a quarter on services transferred to them.



## IMPLEMENTATION

11. The Government are firmly committed to the principle of abolition but are ready to listen to views on detailed implementation. The main legislation will be introduced in the 1984/85 session and will provide for the change to take effect on 1 April 1986.
12. There will also be a Bill this session to deal with the local elections that would otherwise take place for these authorities in May 1985. This Bill will provide that, for their last eleven months, these councils will consist of members nominated by the borough and district councils. The existing GLC and MCC councillors will retire in May 1985 at the end of their term of office - ie when the electoral mandate which they were given in 1981 expires.

## MISCONCEPTIONS ABOUT THE GOVERNMENT'S PROPOSALS

13. Some critics have suggested that there are **very large numbers** of bodies replacing these authorities. In fact there will be three joint boards in each metropolitan county (police, fire and public transport) and two in London (fire and a new ILEA). There are only two proposals for other permanent bodies, an advisory commission on planning in London and a technical body to take charge of managing London's debt, superannuation and legal liabilities. The Government's proposals for London Transport also include a new body; but these proposals are a separate matter not directly related to abolition.
14. It has also been said that it is naive and optimistic to expect local authorities to **work together informally**. It is extraordinary that people in local government should adopt such a negative attitude. There may need to be some new ways of working established but there is much more chance of cooperation between councils that are on an equal footing than there is in the present system where upper-tier authorities have sometimes acted as if they were superior to the boroughs and districts.
15. It has been suggested that **joint boards lack accountability**. But this is not the case. They will be controlled by the councils in each area through their power to appoint the members. The temporary powers that Ministers will have to approve precepts will be of a general nature; to suggest that this amounts to central take-over of local services is misconceived.



16. Some have argued that the proposals **undermine local democracy**. But people will still be able to vote for a local council, and there will be enhanced local accountability as the more accessible borough and districts councils will be responsible for the full range of services. There is no principle that requires there to be two separate local authorities as a safeguard of democracy; single tier local government existed in our major cities (except London) up to 1974.

17. We have been challenged to have a **formal inquiry**, of a wideranging kind. But this could only mean delay when the case for change is overwhelming. There are still many matters of implementation on which the Government will listen to views.



## SUMMARY OF PROPOSALS ON THE REALLOCATION OF GLC AND MCC FUNCTIONS

## A. FUNCTIONS TO BE TRANSFERRED TO BOROUGH AND DISTRICT COUNCILS

## Functions already shared or carried out concurrently with the lower tier

Planning (including minerals planning and derelict land reclamation)  
 Highways and traffic management  
 Housing\*  
 Support for the arts  
 Historic buildings  
 Civil defence and emergencies  
 Tourism  
 Entertainments licensing\*  
 Archives and Libraries  
 Recreation, parks, and Green Belt land

## Functions solely the responsibility of the upper tier

Waste regulation and disposal  
 Trading standards and related functions<sup>+</sup>  
 Support and funding for the magistrates' courts service\* and the probation services  
 Coroners  
 School crossing patrols<sup>+</sup>  
 Building control\*  
 Safety of sports grounds  
 Registration of common land and town or village greens  
 Maps etc in relation to rights of way  
 Gypsy sites<sup>+</sup>

## B. FUNCTIONS REQUIRING STATUTORY JOINT ARRANGEMENTS

Police in the Metropolitan Counties  
 Fire  
 Education in inner London  
 Public Transport in the Metropolitan Counties

\*London only

<sup>+</sup>metropolitan counties only



FUNCTIONS REQUIRING OTHER ARRANGEMENTS

Land drainage and flood protection in London will become the responsibility of the Thames Water Authority.

Certain arts sponsorship will be taken over by the Trustees of national museums and galleries.



## ABOLITION OF GLC/MCCs: QUESTION AND ANSWER NOTES

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5. Transfer of Staff and Property	D3/6
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7. Costs and Savings	D3/10
8. Implementation	D3/10



GENERAL

Q1 Is abolition a political device to get rid of Labour councils?

A1 No. The origin of the policy is our perception of the absence of a real role for these councils. Most of these councils have been and could be Conservative controlled. We are handing power to boroughs and districts with various political control.

Q2 Why abolish authorities as well as capping the rates?

A2 Restraining expenditure is no substitute for having a fundamentally more economical framework.

Q3 Why not have a full investigation?

A3 No need for a full inquiry; this would only waste time when the case for change is overwhelming.

Q4 Why not have a study of costs and savings or participate in the MCC-Commissioned Coopers and Lybrand study?

A4 It is too soon to make detailed estimates of the savings. These must depend on decisions to be taken by the boroughs and districts. Any study would depend critically on the assumptions made about those decisions.

Q5 Aren't the White Paper's allegations of overspending by the MCCs 'misleading and overstated', as demonstrated by Coopers and Lybrand's first study?

A5 No, that study confirmed our view that the volume of MCCs' current expenditure has grown very much faster than that of other English authorities.

Q6 Is there not a case for a strategic non-executive assembly?

A6 No sufficient task for it, especially as Government is directly involved in major strategic issues (eg Thames Barrier). Difficult to see how a non-executive assembly would operate, except by interference in executive bodies' business.



Q7 How can you leave the capital city without a voice?

A7 The Boroughs collectively can speak for London. Besides it is doubtful whether the GLC has "spoken for London".

Q8 Why have new arrangements that reduce rather than increase accountability?

A8 Accountability will be improved because the boroughs and districts, which are closer to the people and are readily accessible, will be responsible for most services.

Q9 How can you claim that these proposals are "streamlining"?

A9 One authority will become responsible for all services, in its area, directly or indirectly. There will be less overlap, friction and duplication.

#### PROPOSALS

Q10 How will informal cooperation be arranged?

A10 This is for the local authorities to decide. They have plenty of experience of working together.

Q11 Won't formal and informal cooperation mean complex arrangements with 50, 60 or 70 new bodies (boards, committees, quangos)?

A11 Nothing like that many formal new structures; only 20 joint boards are proposed with no more than three in any area. Look at the complexity of organisational structure that exists now; there are over 80 committees altogether within the GLC and the MCCs.

Q12 These proposals mean take over by central government?

A12 No, only a very few specific minor functions will pass to central government, namely:

- 70 miles of roads in London taken over by Secretary of State for Transport;



- listed building consent in London to Secretary of State for the Environment (he already has this responsibility outside London);
- certain arts sponsorship.

Also the following changes involving non local government bodies:

- London Planning Commission to advise on planning in London;
- Royal Commission on Historic Monuments to take over Survey of London;
- Thames Water Authority to take over flood protection and land drainage in London.

**Q13 What about London Transport?**

A13 The Government are proposing, for public transport reasons that the London Buses and Underground should be taken over by the proposed new "London Regional Transport". That is, in many respects, a return to the situation that existed before 1968.

**Q14 Won't these proposals reduce support for the arts?**

A14 The Government are confident that the boroughs and districts will provide an appropriate level of support for local institutions. For a small number of institutions of national importance the Government have proposed special arrangements involving central funding as described in the consultation document.

**Q15 Won't these proposals make it difficult for voluntary bodies to get funding?**

A15 The Government have indicated that they will consider the need for any special action in the light of the response to consultation.

**JOINT BOARDS**

**Q16 How many joint boards proposed?**

A16 Three in each of the six Metropolitan counties (fire, police and public transport), two in London (fire and ILEA), 20 in all. Some districts might take on public transport themselves.



Q17 Joint boards are quangos?

A17 No. A quango is a body appointed by Ministers. The joint boards will be local bodies composed of elected members of the borough and district councils appointed by those councils, and recallable by them.

Q18 Joint boards are unaccountable?

A18 No. The boroughs and districts will be the channel of communication to joint boards and the responsibility for joint boards will rest on their councillors. With a more intelligible system there will be greater real accountability.

Q19 Would the Government consider having joint boards for more than one function (eg police and fire)?

A19 We shall listen to suggestions of all kinds, but we do not intend to recreate bodies indistinguishable from those we are abolishing.

Q20 Why not break up ILEA?

A20 There are some attractions in such an option. It would have the advantage of bringing the service closer to the ratepayer and improving accountability. The Government consider, however, that this advantage is likely to be outweighed by the problems inherent in breaking up a long-standing and well-understood pattern of provision, and that the disruption involved could not be justified. The White Paper makes it clear that the new arrangement will be kept under review, and that the Government are open to ideas for greater involvement by the borough councils.

#### CONSTITUTION OF JOINT BOARDS

Q21 Why have political balance requirement?

A21 To get a wide spread of interests involved in joint boards. We are giving statutory effect to what is already best practice in forming committees in many authorities.



How will political balance be enforced?

A22 It will be a statutory requirement. Obviously it won't be possible to reflect political balance exactly in nominations. Individual authorities will have to work out their own method of complying with the statutory requirement. In case of dispute the matter would have to go to the courts.

Q23 What will be political complexion of joint boards?

A23 Can't say - this will depend on the political composition of the nominating authorities at the time and the way in which political balance requirement operates.

Q24 Term of office of joint board members?

A24 They will have no specified term, but will be recalled at any time by the nominating authority.

Q25 Why not direct elections to Joint Boards (especially ILEA)?

A25 Attractions in this, but broad aim of Government proposals is to ensure that responsibility for running services rests with boroughs and districts. In case of joint board services this is achieved through collective borough/district responsibility for the joint board. A directly elected authority would be apart from the boroughs/districts; we believe that this would remove any incentive for joint board members to consider the total burden being placed on ratepayers.

#### STAFF AND PROPERTY

Q26 How will staff be transferred?

A26 This will be decided in the light of consultations. In 1972 many staff were transferred in groups. It might be feasible to do this for readily identifiable staff engaged on services going to joint boards. But most services will be divided amongst boroughs and districts; they will recruit directly the staff they need.



Q27 Will staff be protected?

A27 A staff Commission will be established and there may be arrangements, where appropriate, to give staff affected first refusal for posts with successor authorities. There will be full consultations with staff representatives on all matters affecting their interests; TUC Local Government Committee have been told this.

Q28 What will the Staff Commission do?

A28 It will be charged with looking after the interests of all staff affected by the proposals. It will be independent of the receiving bodies.

Q29 What will happen to existing pensions and similar payments?

A29 No-one receiving a pension or other continuing payment from the GLC or a Metropolitan County need worry. Such payments will continue, and all such rights are safeguarded.

Q30 Will there be redundancies?

A30 Yes. Voluntary redundancy could achieve substantial reductions, but some compulsory redundancies cannot be ruled out. The level of redundancies will be reduced if authorities take a responsible attitude to recruitment in the interim.

Q31 What about recruitment between now and abolition?

A31 The Government hope that authorities will act responsibly towards their ratepayers and towards their staff. They should fill only essential vacancies.

Q32 Won't there be duplication through the breaking up of specialist teams (eg MCC derelict land services)?

A32 We expect the successor authorities to set up effective co-operative arrangements for the use of specialist staff and equipment, where this is the most economical thing to do.



What will happen to property?

A33 In general property will be transferred to the authority or Board taking responsibility for the function for which it is required.

Q34 What about County Hall?

A34 Any genuinely surplus property will be disposed of at some stage, to the benefit of the ratepayers concerned.

#### FINANCIAL ARRANGEMENTS

Q35 What will be the effect of abolition on rates?

A35 One of the purposes of abolition is to enable services to be provided more effectively and more efficiently. This should mean that rates will be lower than they would have been if the GLC/MCCs had continued to exist.

Q36 Won't the removal of the GLC precept mean a windfall gain for ratepayers in central London, at the expense of ratepayers elsewhere?

A36 No. The existing balance between ratepayers in different parts of London is intended to be maintained. This will require an extension of the London Rates Equalisation Scheme. This is explained in the consultation document on "The Disappearance of the GLC Precept".

Q37 Won't there be a disproportionate burden on some boroughs/districts where GLC/MCC obligations are concentrated in particular areas (eg the Crystal Palace sports centre, ex GLC housing already transferred to the boroughs)?

A37 The general aim is to ensure that there should be no undue financial advantages or disadvantages for ratepayers of individual authorities as a result of abolition. Special arrangements may be necessary to achieve this in some cases. This is the subject of a separate consultation document.



Q38 Won't boroughs and districts have to put up their rates?

A38 Yes, of course, they will be paying directly for some of the services now funded out of the upper tier precept. But it is the size of the final bill to the ratepayer that matters and there will be savings there.

Q39 How will the arrangements for the selective control of rates be affected by abolition?

A39 The selective rate limitation scheme will of course apply to the borough and district councils taking on new functions and to joint boards in exactly the same way as to other local authorities - ie there will be Government control only if an authority "overspends". The arrangements will make allowance for the new responsibilities they have taken on. In addition the precepts of each joint board will be subject to approval by the appropriate Secretary of State for the first three financial years.

Q40 Won't abolition prejudice the credit-worthiness of the GLC/MCC's?

A40 No. After abolition the existing debt of each authority will continue to be managed by a single body with all the necessary expertise. The debt will be funded by all the successor bodies; it will therefore continue to be backed by the rateable resources of the whole area.

Q41 How many precepts will ratepayers face?

A41 In the metropolitan counties there will be three main new ones (police, fire and public transport) in place of the one from the county. Over London as a whole there will be two new main precepts (fire and London Regional Transport). There will also continue to be one for the Metropolitan Police. In inner London there will continue to be a precept for education. There will still, as now, be one single rate demand covering the borough or district rate and any precepts. Rate demands will show how much will go to each rating and precepting authority.



Q42 What savings in costs/staff do Government expect?

A42 Although it is not possible to make precise estimates because these will depend on detailed decisions by the successor authorities and bodies, the Government are convinced that substantial savings can be made, and will take steps to ensure that they are achieved. A rough estimate is that there is scope for saving at least £120 million a year (including 9,000 jobs), and there are indications from the boroughs and districts that there may be savings of at least a quarter on services transferred to them.

#### IMPLEMENTATION

Q43 Why not do it by April/May 1985, avoid transitional councils?

A43 Not possible, need for reasonable consultation period precludes main legislation this session.

Q44 Why have transitional councils?

A44 Present councillors have no legitimate role beyond May 1985, when their electoral mandate expires. Appropriate to involve boroughs and districts who will take over fully in 1986.

Q45 Why not introduce the transitional councils in May 1984?

A45 The term of office of the elected members of the GLC and MCCs lasts until May 1985. It would not be appropriate to cut short the electoral mandate they were given in 1981.

Q46 How big will the transitional councils be?

A46 We will discuss this, possible range is from present size, to avoid disturbance to structures in the council, to sizes proposed for joint boards.

Q47 What will be the political composition of transitional councils?

A47 Not clear, depends on the size and the nominations made by the authorities, to reflect the political balance in the constituent authorities at the time (ie after the local elections due in May 1984).



Q48 Will there be adequate consultation?

A48 The first main period of consultation runs until 31 January and the Government welcome comments on the White Paper and the supplementary documents that have been issued. After that there will continue to be extensive consultation on detailed preparations for the change.



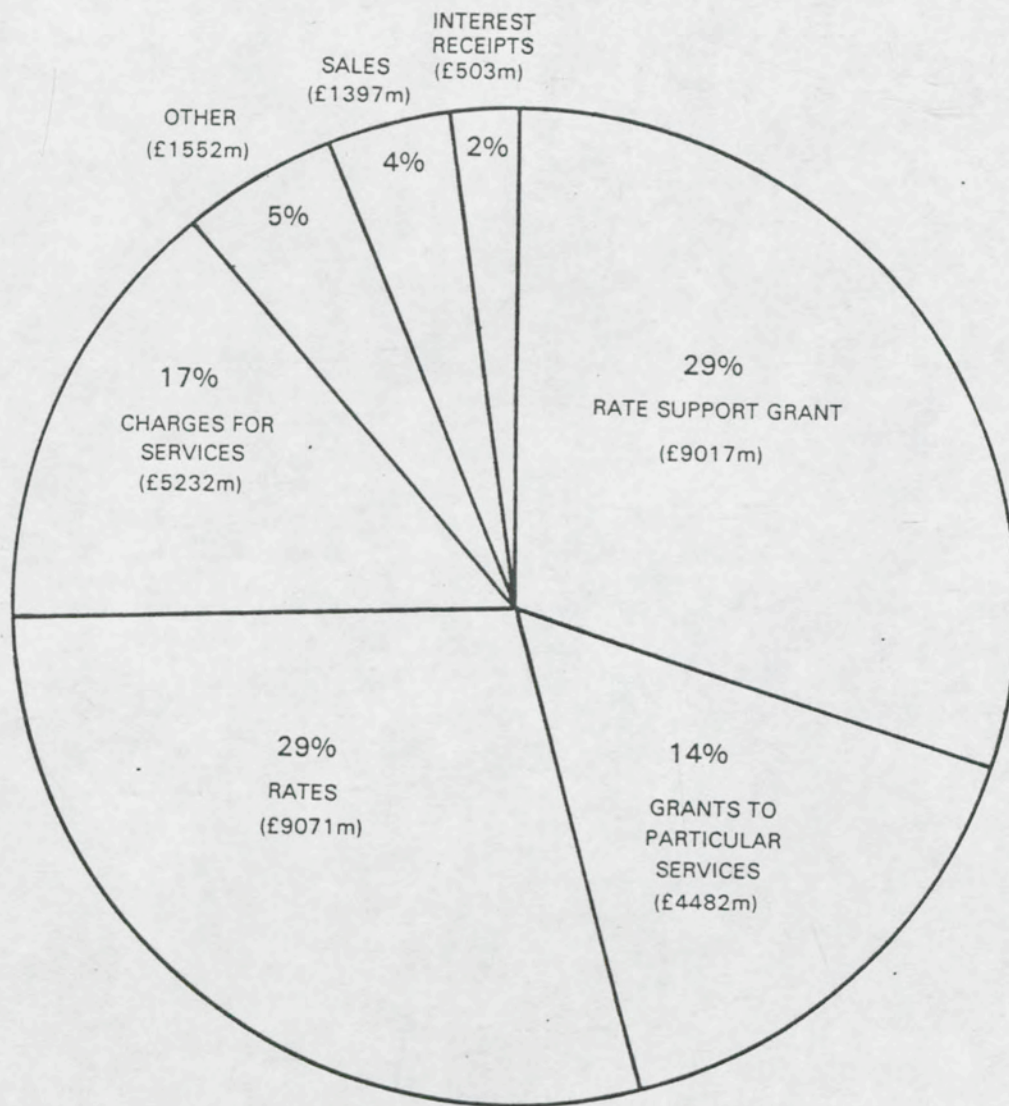
E. RATE LIMITATION, ABOLITION OF GLC AND MCCs, AND RSG SETTLEMENTS: TIMETABLE OF MAIN EVENTS

December 1983	Rate Support Grant Order published. Rate Limitation Bill introduced.
January 1984	Second Reading of Rate Limitation Bill. Rate Support Grant Order debated.
Spring 1984	Paving Abolition Bill introduced.
June/July 1984	Royal Assent for Paving Abolition Bill. Royal Assent for Rate Limitation Bill. Selection of authorities for rate limitation.
November 1984	Main Abolition Bill introduced. Second Reading of Main Abolition Bill.
December 1984	Rate Support Grant Order published.
January 1985	Rate Support Grant Order debated Proposed rate limits for 1985/86 published.
April 1985	Rate limits for 1985/86 for selected authorities come into force. Substitute councils appointed for GLC & MCCs.
July 1985	Royal Assent for main Abolition Bill.



# LOCAL AUTHORITIES (ENGLAND) 1981-82

Chart 1 : All income by source.



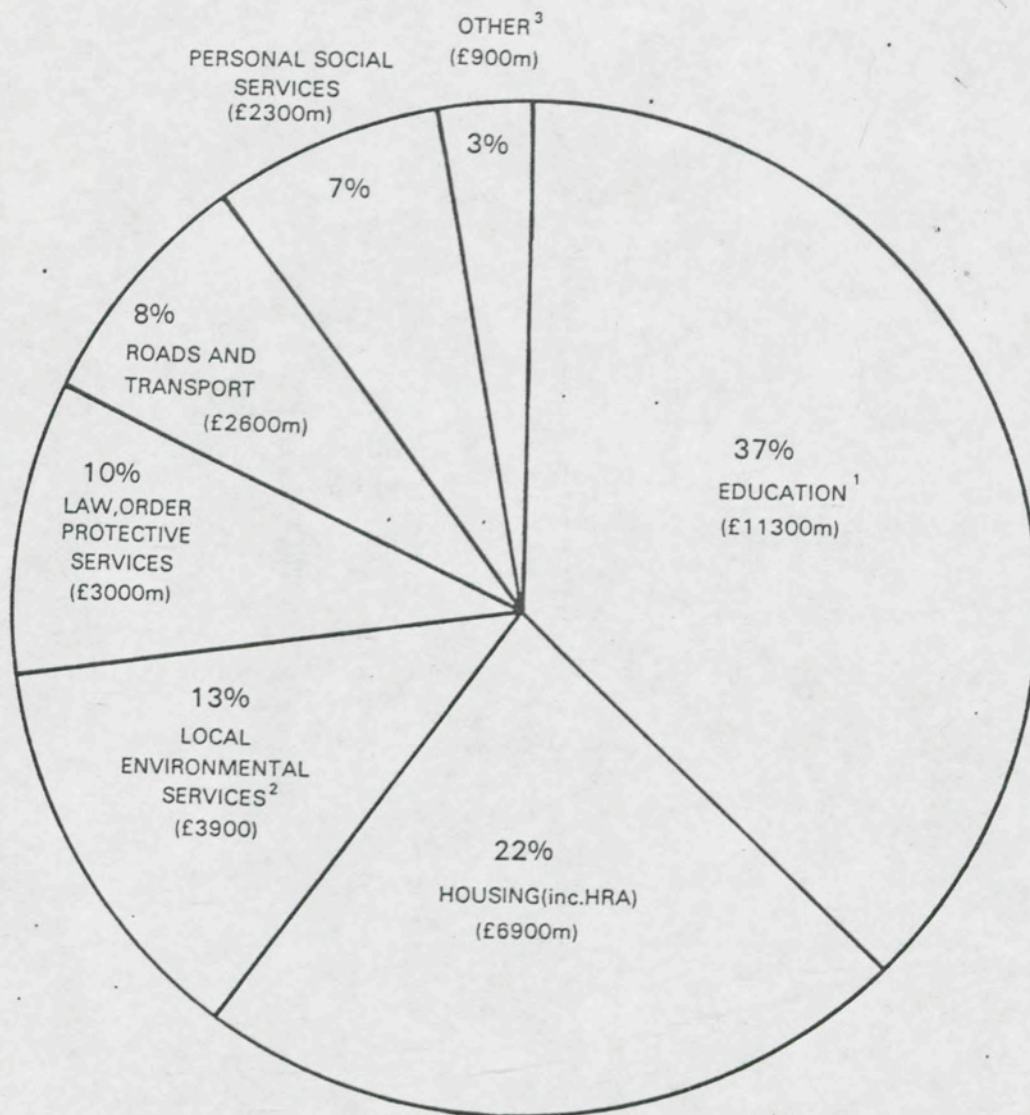
Note: this chart analyses gross income to all accounts, adjusted (as far as possible) to exclude payments between accounts.

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# LOCAL AUTHORITIES (ENGLAND) 1981-82

Chart 2. All expenditure by service



1. Including Libraries, Museums and Art Galleries.

2. Excluding general administration re-charged to services.

3. Including trading services and employment services.

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Note: this chart covers gross expenditure by all accounts, adjusted(as far as possible) to exclude payments between accounts.